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Managing Director and Principal*

July 14, 2008

Ms. Anne Stausboll
Interim Chief Investment Officer
California Public Employees' Retirement System
400 Q Street
Sacramento, CA 95814

Re: Statement of Investment Policy for the Affiliate Funds/Repeal of Annuitants' Healthcare Coverage Fund Policy

Dear Anne,

You requested Wilshire's opinion with respect to Staff's proposed Statement of Investment Policy for the Affiliate Funds and the repeal of the Annuitants' Healthcare Coverage Fund Policy.

Recommendation

Wilshire recommends that the Policy Subcommittee approve the proposed Statement of Investment Policy for the Affiliate Funds and concurrently repeal the Annuitants' Healthcare Coverage Fund (AHCF) Policy. The AHCF Policy becomes redundant with the approval of the Affiliate Funds Policy and is no longer needed.

Discussion

Wilshire and Staff have been engaged in the Policy Review Project for approximately two years. During this time period, CalPERS has adopted an overarching Statement of Investment Policy for the PERF and has revised, eliminated and added policies in an effort to streamline the total set of policies for CalPERS' various programs and asset classes. The proposed policy for the Affiliate Funds continues this process in the same spirit of clarity, transparency and parsimony.

The proposed policy contains all of the necessary elements to govern the investments of each of the Affiliate Funds, either by inclusion or by reference to other policy documents. For example, the current target asset allocation for each of the Affiliate Funds, which includes ranges for each asset class, is included as an attachment to the proposed policy. By using attachments, the policy can be easily amended as the target asset allocations are revised over time for each Affiliate Fund. In addition, the proposed policy references the policies for the asset classes/unitized pools, which govern the underlying investments for

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each of the Affiliate Funds (equities, fixed income, etc.). Again, this allows for changes to the underlying investment approaches without changes to the asset class policies and to the Affiliate Fund policy.

The current AHCF Policy will become redundant if the Policy Subcommittee approves the adoption of the Statement of Investment Policy for the Affiliate Funds, as the AHCF is included as one of the affiliate funds. Therefore, the current AHCF policy should be repealed at the same time that the Affiliate Funds policy is approved.

Conclusion

Wilshire believes that the proposed Statement of Investment Policy for the Affiliate Funds is a comprehensive document that contains all of the key elements of a prudent policy statement and includes all appropriate language from CalPERS' own policy template. We recommend that the Policy Subcommittee approve the Affiliate Funds policy and simultaneously repeal the existing AHCF policy.

If you have any questions or comments, please let me know.

Sincerely,

A handwritten signature in black ink, appearing to read "Anne Stausboll". The signature is fluid and cursive, with a large loop at the end.